

**REPORT OF THE AUDIT OF THE
PIKE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2007**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable William M. Deskins, Former Pike County Judge/Executive

Honorable Wayne T. Rutherford, Pike County Judge/Executive

Members of the Pike County Fiscal Court

The enclosed report prepared by Peercy and Gray, PSC, presents the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Pike County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements.

We engaged Peercy and Gray, PSC, to perform the audit of these financial statements. We worked closely with the firm during our report review process; Peercy and Gray, PSC, evaluated the Pike County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE PIKE COUNTY FISCAL COURT

June 30, 2007

Peercy and Gray, PSC has completed the audit of the Pike County Fiscal Court for fiscal year ended June 30, 2007. We have issued an unqualified opinion on the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information. We have issued a qualified opinion on the aggregate discretely presented component units. We qualified our opinion on the aggregate discretely presented component units because the Pike County Golf Management Corporation, a legally separated component unit, used an accrual basis of accounting for presentation of their financial statements. The Pike County Fiscal Court used a modified cash basis of accounting for presentation of their financial statements. Accounting principles generally accepted in the United States of America, as applicable to the modified cash basis of accounting require component units to be reported under the same basis of accounting as the primary government. In accordance with OMB Circular A-133, we have issued an unqualified opinion on the compliance requirements that are applicable to Pike County's major federal programs for the year ended June 30, 2007.

Financial Condition:

The county had total net assets of \$50,906,986 as of June 30, 2007. The county had unrestricted net assets of \$5,732,377 in its governmental activities as of June 30, 2007, with total net assets of \$45,959,085. In its business-type activities, the county had unrestricted net assets of \$992,021, with total net assets of \$4,947,901. Total debt principal as of June 30, 2007, was \$14,777,589 with \$1,371,383 due within the next year.

Report Comments:

2007-1 The County Did Not Adequately Monitor Subrecipients Of Federal Award Programs

Deposits:

The fiscal court and component units' deposits were insured and collateralized by bank securities.

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PEERCY AND GRAY, PSC

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To the People of Kentucky

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Jonathan Miller, Secretary

Finance and Administration Cabinet

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Members of the Pike County Fiscal Court

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Pike County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Pike County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Pike County Golf Management Corporation, which represent 28% and 62%, respectively, of the assets and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Pike County Golf Management Corporation, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provides a reasonable basis for our opinions.

As described in Note 1, Pike County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements of Pike County Golf Management Corporation, a discretely presented component unit of Pike County Fiscal Court are presented in accordance with the accrual basis of accounting and therefore include certain accruals required by accounting principles generally accepted in the United States of America that are not presented in accordance with the modified cash basis of accounting. The amounts by which these accruals affect the financial statement is not reasonably determinable.

To the People of Kentucky
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In our opinion, based on our audit and the report of other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had the Pike County Golf Management Corporation's financial statements been presented on a modified cash basis of accounting, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate discretely presented component units of Pike County, Kentucky, as of June 30, 2007 and the changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for Pike County, Kentucky, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Management has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pike County, Kentucky's basic financial statements. The accompanying supplemental information, combining fund financial statements and component unit fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements, component unit fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have issued our report dated December 13, 2007, on our consideration of Pike County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the People of Kentucky
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Based on the results of our audit, we present the accompanying schedule of findings and questioned costs, included herein, which discusses the following report comment:

2007-1 The County Did Not Adequately Monitor Subrecipients Of Federal Award Programs

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The signature is written in a cursive, flowing style.

Percy and Gray, PSC
Certified Public Accountants
Louisville, Kentucky

December 13, 2007

PIKE COUNTY OFFICIALS**For The Fiscal Year Ended June 30, 2007****Fiscal Court Members:**

Wayne T. Rutherford	County Judge/Executive
Jeff Anderson	Magistrate
Vernon Johnson	Magistrate
Leo Murphy	Magistrate
Kenneth Robinson	Magistrate
Lloyd Hillman Dotson	Magistrate
Christian Harris	Magistrate

Other Elected Officials:

Howard Keith Hall	County Attorney
Rodney Scott	Jailer
Lillian P. Elliott	County Clerk
David Deskins	Circuit Court Clerk
Charles "Fuzzy" Keese	Sheriff
Lonnie Osborne	Property Valuation Administrator
Russell Roberts	Coroner

Appointed Personnel:

Johnda B. Billiter	County Treasurer
Rhonda James	Finance Officer

PIKE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

PIKE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Totals	Pike County Interlocal 911 Board	Pike County Golf Mngt. Corp. 12/31/06
ASSETS					
Current Assets:					
Cash and Cash Equivalents	\$ 5,675,701	\$ 2,986,474	\$ 8,662,175	\$ 78,313	\$ 96,239
Receivable Due from Airport Board	43,357		43,357		
Receivable Due from 911 Board	58,076		58,076		
Assets Held for Resale	592,896	232,400	825,296		
Inventory					2,473
Prepaid Expenses					3,978
Total Current Assets	6,370,030	3,218,874	9,588,904	78,313	102,690
Noncurrent Assets:					
Capital Assets - Net of Accum. Depr.					
Land and Land Improvements	1,002,950		1,002,950		
Buildings	13,252,705		13,252,705		
Vehicles and Equipment	3,055,904	2,657,644	5,713,548	582,394	159,723
Infrastructure Assets-Net of Depr.	36,126,468		36,126,468		
Total Noncurrent Assets	53,438,027	2,657,644	56,095,671	582,394	159,723
Total Assets	59,808,057	5,876,518	65,684,575	660,707	262,413
LIABILITIES					
Current Liabilities:					
Accounts Payable					46,918
Bonds Payable	370,000		370,000		
Financing Obligations Payable	305,166	696,217	1,001,383		26,579
Total Current Liabilities	675,166	696,217	1,371,383	0	73,497
Noncurrent Liabilities:					
Bonds Payable	9,750,000		9,750,000		
Financing Obligations Payable	3,423,806	232,400	3,656,206		14,468
Total Noncurrent Liabilities	13,173,806	232,400	13,406,206	0	14,468
Total Liabilities	13,848,972	928,617	14,777,589	0	87,965
NET ASSETS					
Invested in Capital Assets,					
Net of Related Debt	39,589,055	1,729,027	41,318,082	582,394	118,576
Restricted For:					
Capital Projects	580,510		580,510		
Debt Service	57,143	2,226,853	2,283,996		
Unrestricted	5,732,377	992,021	6,724,398	78,313	55,872
Total Net Assets	\$ 45,959,085	\$ 4,947,901	\$ 50,906,986	\$ 660,707	\$ 174,448

The accompanying notes are an integral part of the financial statements.

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PIKE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007

PIKE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 8,520,366	\$ 30,635	\$ 14,373,599	\$
Protection to Persons and Property	3,822,770	289,694	10,684	640,488
General Health and Sanitation	1,323,418		169,115	936,624
Social Services	1,000,374		500,802	100,000
Recreation and Culture	1,462,749			1,341,191
Roads	4,904,802			985,665
Airports	89,498			
Other Transportation Facilities and Services	1,116,504			
Debt Service	609,363			
Capital Projects	942,634			
Total Governmental Activities	23,792,478	320,329	15,054,200	4,003,968
Business-type Activities:				
Solid Waste Operations	5,015,486	5,516,160	169,464	
Jain Canteen	139,422	78,327		
Total Business-type Activities	5,154,908	5,594,487	169,464	
Total Primary Government	\$ 28,947,386	\$ 5,914,816	\$ 15,223,664	\$ 4,003,968
Component Units:				
Pike County Inter-Local 911 Board	\$ 484,917	\$ 419,903	\$	\$
Pike County Golf Management Board	428,696	261,708	527,610	
Total Component Units	\$ 913,613	\$ 681,611	\$ 527,610	\$ 0

General Revenues:

Taxes:
Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Other Taxes
Excess Fees
Interest Received
Transfers
Miscellaneous Revenues

Total General Revenues
Change in Net Assets
Net Assets - Beginning -(Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

Net (Expenses) Revenues and Changes in Net Assets				
Primary Government			Component Units	
Governmental Activities	Business-Type Activities	Totals	Pike County Interlocal 911 Board	Pike County Golf Mngt. Corp. 12/31/06
\$ 5,883,868	\$	\$ 5,883,868	\$	\$
(2,881,904)		(2,881,904)		
(217,679)		(217,679)		
(399,572)		(399,572)		
(121,558)		(121,558)		
(3,919,137)		(3,919,137)		
(89,498)		(89,498)		
(1,116,504)		(1,116,504)		
(609,363)		(609,363)		
(942,634)		(942,634)		
(4,413,981)		(4,413,981)		
	670,138	670,138		
	(61,095)	(61,095)		
	609,043	609,043		
(4,413,981)	609,043	(3,804,938)		
			(65,014)	
				360,622
			(65,014)	360,622
2,223,626		2,223,626		
784,269		784,269		
596,706		596,706		
1,263,785		1,263,785		
740,879		740,879		
326,906	108,045	434,951	785	481
(1,840,125)	1,770,241	(69,884)	69,884	
1,278,710	46,025	1,324,735		
5,374,756	1,924,311	7,299,067	70,669	481
960,775	2,533,354	3,494,129	5,655	361,103
44,998,310	2,414,547	47,412,857	655,052	(186,655)
\$ 45,959,085	\$ 4,947,901	\$ 50,906,986	\$ 660,707	\$ 174,448

The accompanying notes are an integral part of the financial statements.

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PIKE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2007

PIKE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

	General Fund	Road Fund	Jail Fund	LGEA Fund	LGED Fund
ASSETS					
Cash and Cash Equivalents	\$ 879,830	\$1,537,463	\$ 113,920	\$ 1,561,726	\$ 932,549
Receivable Due From 911 Board	58,076				
Receivable Due From Airport Bd.	43,357				
Total Assets	<u>\$ 981,263</u>	<u>\$1,537,463</u>	<u>\$ 113,920</u>	<u>\$ 1,561,726</u>	<u>\$ 932,549</u>
FUND BALANCES					
Reserved for:					
Encumbrances	\$ 33,902	\$ 73,640	\$ 74,262	\$ 33,730	\$
Capital Projects					
Debt Service Fund					
Unreserved					
General Fund	947,361				
Special Revenue Funds		1,463,823	39,658	1,527,996	932,549
Total Fund Balances	<u>\$ 981,263</u>	<u>\$ 1,537,463</u>	<u>\$ 113,920</u>	<u>\$ 1,561,726</u>	<u>\$ 932,549</u>

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2007

General Obligation Bond Fund	Non- Major Funds	Total Governmental Funds
\$ 637,653	\$ 12,560	\$ 5,675,701
		58,076
		43,357
<u>\$ 637,653</u>	<u>\$ 12,560</u>	<u>\$ 5,777,134</u>
\$	\$ 3,466	\$ 219,000
580,510		580,510
57,143		57,143
		947,361
	9,094	3,973,120
<u>\$ 637,653</u>	<u>\$ 12,560</u>	<u>\$ 5,777,134</u>

Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Assets:

Total Fund Balances	\$ 5,777,134
Amounts Reported For Governmental Activities In The Statement	
Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources	
And Therefore Are Not Reported in the Funds.	143,333,899
Accumulated Depreciation	(89,895,872)
Assets Held For Resale	592,896
Long-term and short-term debt is not due and payable	
in the current period and, therefore, is not reported in the funds.	
Financing Obligations	(3,728,972)
Bonded Debt	<u>(10,120,000)</u>
Net Assets Of Governmental Activities	<u>\$ 45,959,085</u>

The accompanying notes are an integral part of the financial statements.

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PIKE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

PIKE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>LGEA Fund</u>
REVENUES				
Taxes	\$ 4,571,306	\$	\$	\$
In Lieu Tax Payments	42,181	91		
Excess Fees	740,879			
Licenses and Permits	246,723			
Intergovernmental	1,425,710	3,291,024	991,765	13,104,280
Charges for Services	30,635		289,694	
Miscellaneous	95,159	52,371	16,029	102,735
Interest	179,438	7,871		
Total Revenues	<u>7,332,031</u>	<u>3,351,357</u>	<u>1,297,488</u>	<u>13,207,015</u>
EXPENDITURES				
General Government	3,217,765			448,670
Protection to Persons and Property	157,624		2,332,670	1,036,621
General Health and Sanitation	929,724			393,138
Social Services	163,989			816,782
Recreation and Culture	289,509			1,114,597
Roads	128,571	3,135,450		
Airports				89,498
Other Transportation Facilities				9,033
Debt Service	16,616	552,253		419,456
Capital Projects	316,140	2,068,607	6,011	1,158,999
Administration	1,494,635	1,361,227	811,305	337,231
Total Expenditures	<u>6,714,573</u>	<u>7,117,537</u>	<u>3,149,986</u>	<u>5,824,025</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>617,458</u>	<u>(3,766,180)</u>	<u>(1,852,498)</u>	<u>7,382,990</u>
Other Financing Sources (Uses)				
Proceeds from Sale of Assets Held for Resale		489,540		
Proceeds from Financing Obligations	56,744	592,896		20,699
Transfers From Other Funds		4,591,889	1,940,000	
Transfers To Other Funds	(415,755)	(677,681)		(8,818,607)
Total Other Financing Sources (Uses)	<u>(359,011)</u>	<u>4,996,644</u>	<u>1,940,000</u>	<u>(8,797,908)</u>
Net Change in Fund Balances	258,447	1,230,464	87,502	(1,414,918)
Fund Balances - Beginning	722,816	306,999	26,418	2,976,644
Fund Balances - Ending	<u>\$ 981,263</u>	<u>\$ 1,537,463</u>	<u>\$ 113,920</u>	<u>\$ 1,561,726</u>

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

LGED Fund	General Obligation Bond Fund	Non- Major Funds	Total Governmental Funds
\$	\$	\$ 8,085	\$ 4,579,391
			42,272
			740,879
			246,723
	239,490	5,900	19,058,169
			320,329
488,011		34,864	789,169
40,500	98,915	182	326,906
<u>528,511</u>	<u>338,405</u>	<u>49,031</u>	<u>26,103,838</u>
300,000			3,966,435
		8,208	3,535,123
			1,322,862
			980,771
			1,404,106
			3,264,021
			89,498
		1,107,471	1,116,504
	782,075		1,770,400
	2,342,148	27,565	5,919,470
		319,921	4,324,319
<u>300,000</u>	<u>3,124,223</u>	<u>1,463,165</u>	<u>27,693,509</u>
228,511	(2,785,818)	(1,414,134)	(1,589,671)
			489,540
			670,339
	122,503	1,417,526	8,071,918
			(9,912,043)
<u>-</u>	<u>122,503</u>	<u>1,417,526</u>	<u>(680,246)</u>
228,511	(2,663,315)	3,392	(2,269,917)
704,038	3,300,968	9,168	8,047,051
<u>\$ 932,549</u>	<u>\$ 637,653</u>	<u>\$ 12,560</u>	<u>\$ 5,777,134</u>

The accompanying notes are an integral part of the financial statements.

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PIKE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

PIKE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

Reconciliation to the Statement of Activities :

Net Change in Fund Balances - Total Governmental Funds \$ (2,269,917)

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	4,976,836
Depreciation Expense	(2,242,493)
Capital Asset Disposal, Net Book Value	(19,743)
Asset Held For Resale	592,896
Asset Disposal - Asset Held For Resale	(527,502)

Payment on receivables provide for current financial resources to Governmental Funds, while at the Government-wide level, a reduction of the receivable occurs. These transactions have no effect on net assets.

Receivable reclaimed as capital asset	(40,000)
---------------------------------------	----------

The issuance of debt (e.g. bonds, leases) provides current financial resources to governmental funds, while debt principal payments are expensed in the Governmental Funds as a use of current financial resources. These transactions, however, have no affect on net assets.

Financing Obligation Proceeds - short term	(670,339)
Financing Obligations Principal Payments	801,037
Bond Principal Payments	360,000
Change in Net Assets of Governmental Activities	\$ 960,775

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PIKE COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS
June 30, 2007

PIKE COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

June 30, 2007

	Business-Type Activities		
	Enterprise Fund		
	Solid Waste Fund	Jail Canteen Fund	Totals
Assets			
Current Assets:			
Cash and Cash Equivalents	\$ 2,884,557	\$ 101,917	\$ 2,986,474
Assets Held for Resale	232,400		232,400
Total Current Assets	<u>3,116,957</u>	<u>101,917</u>	<u>3,218,874</u>
Noncurrent Assets:			
Capital Assets:			
Vehicles and Equipment	6,293,000		6,293,000
Less Accumulated depreciation	<u>(3,635,356)</u>		<u>(3,635,356)</u>
Total Noncurrent Assets	<u>2,657,644</u>		<u>2,657,644</u>
Total Assets	<u>5,774,601</u>	<u>101,917</u>	<u>5,876,518</u>
Liabilities			
Current Liabilities			
Financing Obligations Payable	<u>696,217</u>		<u>696,217</u>
Total Current Liabilities	<u>696,217</u>		<u>696,217</u>
Noncurrent Liabilities			
Financing Obligations Payable	<u>232,400</u>		<u>232,400</u>
Total Noncurrent Liabilities	<u>232,400</u>		<u>232,400</u>
Total Liabilities	<u>928,617</u>		<u>928,617</u>
Net Assets			
Invested in Capital Assets,			
Net of Related Debt	1,729,027		1,729,027
Restricted for Debt Service	2,226,853		2,226,853
Unrestricted	890,104	101,917	992,021
Total Net Assets	<u>\$ 4,845,984</u>	<u>\$ 101,917</u>	<u>\$ 4,947,901</u>

The accompanying notes are an integral part of the financial statements.

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PIKE COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

PIKE COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	Business-Type Activities		
	Enterprise Funds		
	Solid Waste Fund	Jail Canteen Fund	Totals
Operating Revenues			
Operating Grants	\$ 169,464	\$	\$ 169,464
Garbage Collection	3,410,524		3,410,524
Landfill User Fees	2,084,674		2,084,674
Recycling	17,368		17,368
Miscellaneous	3,594		3,594
Canteen Receipts		78,327	78,327
Total Operating Revenues	<u>5,685,624</u>	<u>78,327</u>	<u>5,763,951</u>
Operating Expenses			
Office Materials & Supplies	38,792		38,792
Office Expense	40,481		40,481
Maintenance Expense	888,187		888,187
Grant Expenditures	199,991		199,991
Uniforms	8,157		8,157
Payroll Expense	2,002,434		2,002,434
Fringe Benefits	1,439,148		1,439,148
Cost of Sales		32,933	32,933
Educational and Recreational		106,489	106,489
Depreciation	309,356		309,356
Total Operating Expenses	<u>4,926,546</u>	<u>139,422</u>	<u>5,065,968</u>
Operating Income (Loss)	<u>759,078</u>	<u>(61,095)</u>	<u>697,983</u>
Non-operating Revenues (Expenses)			
Interest Income	108,045		108,045
Transfer of Capital Asset from Governmental Activities	46,025		46,025
Loss on sale of assets	(27,689)		(27,689)
Lease Payments (Interest Expense)	(61,251)		(61,251)
Total Non-operating Revenues (Expenses)	<u>65,130</u>		<u>65,130</u>
Net Income (Loss) Before Transfers	824,208	(61,095)	763,113
Transfers In	2,515,736		2,515,736
Transfers Out	(745,495)		(745,495)
Change In Net Assets	2,594,449	(61,095)	2,533,354
Total Net Assets - Beginning (Restated)	2,251,535	163,012	2,414,547
Total Net Assets - Ending	<u>\$ 4,845,984</u>	<u>\$ 101,917</u>	<u>\$ 4,947,901</u>

The accompanying notes are an integral part of the financial statements.

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PIKE COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2007

PIKE COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	Business-Type Activities		
	Enterprise Funds		Totals
	Solid Waste Fund	Jail Canteen Fund	
Cash Flows From Operating Activities			
Receipts From Customers	\$ 5,682,030	\$ 78,327	\$ 5,760,357
Miscellaneous	3,594		3,594
Payments to Vendors	(1,175,608)		(1,175,608)
Payments to Employees	(2,002,434)		(2,002,434)
Payments of Benefits on Behalf of Employees	(1,439,148)		(1,439,148)
Cost of Sales		(32,933)	(32,933)
Educational & Recreational		(106,489)	(106,489)
Net Cash Provided By Operating Activities	<u>1,068,434</u>	<u>(61,095)</u>	<u>1,007,339</u>
Cash Flows From Noncapital Financing Activities			
Transfers to Other Funds	(745,495)		(745,495)
Transfers from Other Funds	<u>2,515,736</u>		<u>2,515,736</u>
Net Cash Used By Noncapital Financing Activities	1,770,241		1,770,241
Cash Flows From Capital and Related Financing Activities			
Purchase of Assets	(1,367,184)		(1,367,184)
Proceeds from Sale of Assets	197,904		197,904
Principal Paid on Capital Debt	(1,052,962)		(1,052,962)
Interest Paid on Capital Debt	<u>(61,251)</u>		<u>(61,251)</u>
Net Cash Used By Capital and Related Financing Activities	(2,283,493)		(2,283,493)
Cash Flows From Investing Activities			
Interest Earned	<u>108,045</u>		<u>108,045</u>
Net Increase (Decrease) in Cash and Cash Equivalents	663,227	(61,095)	602,132
Cash and Cash Equivalents - July 1, 2006	<u>2,221,330</u>	<u>163,012</u>	<u>2,384,342</u>
Cash and Cash Equivalents - June 30, 2007	<u>\$ 2,884,557</u>	<u>\$ 101,917</u>	<u>\$ 2,986,474</u>
Summary of Non-Cash Transactions			
Purchase of Assets	\$ (1,599,584)		\$ (1,599,584)
Issuance of Capital Debt for Purchase of Assets	<u>232,400</u>		<u>\$ 232,400</u>
Total Purchase of Assets	<u>\$ (1,367,184)</u>	<u>\$ 0</u>	<u>\$ (1,367,184)</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities			
Operating Income (Loss)	\$ 759,078	\$ (61,095)	\$ 697,983
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities			
Depreciation Expense	<u>309,356</u>		<u>309,356</u>
Total Cash Provided By Operating Activities	<u>\$ 1,068,434</u>	<u>\$ (61,095)</u>	<u>\$ 1,007,339</u>

The accompanying notes are an integral part of the financial statements.

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PIKE COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS
June 30, 2007

PIKE COUNTY
STATEMENT OF FIDUCIARY FUND NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

	<u>Agency Fund</u>
	<u>Inmate</u>
	<u>Account</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 20,408
Total Assets	<u>20,408</u>
Liabilities	
Amounts Held In Custody For Others	<u>20,408</u>
Total Liabilities	<u>20,408</u>
Net Assets	
Total Net Assets	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

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PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however, the value of these assets are included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Pike County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Auditing Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes an organization that is legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Pike County Public Properties Corporation

The fiscal court appoints a voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation.

Discretely Presented Component Units

The component units' column in the government wide financial statements includes the data of the following organizations. It is reported on the Statement of Net Assets and the Statement of Activities in separate columns that are labeled as "Component Unit" to emphasize these organizations' separateness from the fiscal court's primary government.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Pike County Interlocal 911 Board

The Pike County Interlocal 911 Board (the Board) is a legally separate entity established to provide emergency response services to Pike County. The Board's members are appointed independently of the Pike County Fiscal Court, and the Board's governing body is substantially different from that of the Fiscal Court. However, the Fiscal Court is financially accountable for the Board because the Fiscal Court must approve rate changes established by the Board and therefore does not have a separate audited financial report. This financial accountability requires management to include the Board as a component unit. The Board is not included in any other organization's reporting entity and does not provide services exclusively to the Fiscal Court; therefore, the financial activity of the Board is presented discretely.

The fiscal court appropriated \$442,779 to the Board for operating expenses in the fiscal year ending June 30, 2007. The Board reimbursed the fiscal court \$384,703. As of June 30, 2007, the balance of owed to the fiscal court was \$58,076.

Pike County Golf Management Corporation

The Pike County Golf Management Corporation (the Corporation) is a legally separate entity established to provide recreational services to Pike County. The Pike County Fiscal Court appoints the Corporation's board members, and the Corporation's governing body is substantially different from that of the Fiscal Court. The Corporation is not included in any other organization's reporting entity and does not provide services exclusively to the Fiscal Court; therefore, the financial activity of the Board is presented discretely.

The fiscal court appropriated \$204,212 to the Corporation for operating expenses in the fiscal year ending June 30, 2007. The Corporation reimbursed the fiscal court \$25,000. As of June 30, 2007 the fiscal court in the current fiscal year forgave the balance owed to the fiscal court of \$60,708.

Audited financial statements of the Pike County Golf Management Corporation can be obtained by writing the Board at 26 Hurts Branch, Pikeville, Kentucky 41501.

C. Pike County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting Pike County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities; however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Pike County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-Wide and Fund Financial Statements

The primary government reports the governmental activities, business-type activities, proprietary funds, and fiduciary funds using the economic resources measurement focus and the modified cash basis of accounting. Revenues are recognized when received and expenses are recognized when paid, except for the recognition of depreciation expense on the statement of activities and the statement of revenues, expenses and changes in fund net assets – proprietary funds.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets – resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets – those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major funds. Major funds are those funds whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-Wide and Fund Financial Statements (Continued)

Governmental Funds

The governmental funds are accounted for on the modified cash basis and focus on the flow of current financial resources. Revenues are recognized when received and expenditures are recognized when paid.

The primary government reports the following major governmental funds:

General Fund – This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development (GOLD) requires a separate fund or when management requires that a separate fund be used for some function.

Road Fund – This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. GOLD requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund – The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue are reimbursements from the state and federal government and transfers from other funds. GOLD requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Development Fund – the purpose of this fund is to account for projects funded by the Local Economic Development funds. The primary sources of revenue are grants received from the Governor's Office for Local Development. GOLD requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Local Government Economic Assistance Fund - The purpose of this fund is to account for funds earmarked for economic development. The primary sources of revenue for this fund are from the state. GOLD requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

General Obligation Bond Fund - The purpose of this fund is to account for debt service requirements of general obligation bonds of the Fiscal Court. The Governor's Office For Local Development does not require the Fiscal Court to report or budget these funds.

The government also has the following non-major funds: Forestry Fund, Maintenance Garage Fund, Capital Lease Acquisition Fund, and Federal Grant Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Forestry Fund, Local Government Economic Development Fund, Maintenance Garage Fund, Federal Grant Fund, and the Capital Lease Acquisition Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-Wide and Fund Financial Statements (Continued)

Debt Service Fund

The General Obligation Bond Fund is used to account for the accumulation of resources for, and the payment of long-term debt principal and interest.

Proprietary Funds

The proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's proprietary funds are garbage collection fees and landfill user fees in the Solid Waste Fund and charges to customers for sales in the Jail Canteen Fund. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements of Interpretations issued after November 30, 1989 unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The government reports the following major proprietary funds:

Solid Waste Fund - The solid waste fund operations are authorized by the Fiscal Court. The Solid Waste Fund allows for the collection and disposal of garbage from residents of Pike County. Also included in this fund is the operation of a county landfill. The Fords Branch Landfill Closing fund is included in the operations of the Solid Waste fund. The Fords Branch Landfill Closing fund collects funds during the active life of the landfill to cover final closure costs and post-closure maintenance and monitoring costs 30 years after final closure.

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135 (1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135 (2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Jail Inmate Fund for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary fund:

Jail Inmate Account - This fund accounts for funds received from inmates after incarceration.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Presentation of Component Units

The financial statements present the following major discretely presented component units: Pike County Interlocal 911 Board and Pike County Golf Management Corporation.

These component units are presented in a separate column on the Statement of Net Assets and the Statement of Activities that is labeled as "Component Units" to emphasize these organizations' separateness from the fiscal court's primary government.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	25,000	10-75
Machinery and Equipment	2,500	3-25
Vehicles	2,500	5 - 7
Infrastructure	20,000	2-40

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance cost when received or when paid, during the current period.

The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds received are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Pike County Fiscal Court: Mountain Water District, Pike County Housing Authority, and the Pike County Extension Board.

K. Jointly Governed Organization

Pike County Fiscal Court, in conjunction with the City of Pikeville, has created the Pikeville-Pike County Airport Board (Board). The Board is composed of six appointed members, three appointed from each of the two participating governments. The Fiscal Court appropriated \$144,946 to the Board for operating expenses. The Board reimburses the Fiscal Court for these operating expenses. As of June 30, 2007, Fiscal Court had not been reimbursed and \$43,357 is recorded as a receivable. The Board reimbursed the Fiscal Court for the amount due in July 2007.

Note 2. Deposits

The County maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a financial institution's failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Short-term Debt

- A. In July 2006, Pike County participated in the Kentucky Association of Counties' Kentucky Advance Revenue Program by issuing a note in the amount of \$1,578,000 in the General Fund and \$1,151,850 in the Road Fund with principal being due in January 2007. While the county did not use the borrowed funds in order to meet current General and Road Fund expenses, they were able to invest the funds and receive net interest earnings from the Kentucky Association of Counties' Kentucky Advance Revenue Program of \$10,783 in the General Fund and \$7,871 in the Road Fund.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 3. Short-term Debt (Continued)

- B. On June 22, 2006, the Pike County Fiscal Court entered into a lease agreement in the amount of \$263,571 with the Kentucky Association of Counties Leasing Trust for a truck purchase project. The County purchased three heavy trucks to use for one year; then the trucks will be sold at auction. It is intended that the auction will generate funds sufficient to pay off most, if not the entire outstanding principal. The agreement requires monthly payments due on the 20th of each month, with an interest rate of 3.98%. The principal balance of the agreement was \$0 as June 30, 2007.
- C. On June 23, 2006, the Pike County Fiscal Court entered into a lease agreement in the amount of \$263,571 with the Kentucky Association of Counties Leasing Trust for a truck purchase project. The County purchased three heavy trucks to use for one year; then the trucks will be sold at auction. It is intended that the auction will generate funds sufficient to pay off most, if not the entire outstanding principal. The agreement requires monthly payments due on the 20th of each month, with an interest rate of 3.98%. The principal balance of the agreement was \$0 as June 30, 2007.
- D. On May 31, 2006, the Pike County Fiscal Court entered into a lease agreement in the amount of \$225,000 with the Kentucky Area Development Districts Financing Trust for a truck purchase project. The County purchased two heavy trucks to use for one year; then the trucks will be sold at auction. It is intended that the auction will generate funds sufficient to pay off most, if not the entire outstanding principal. The agreement requires one payment due on January 1, 2007, with an interest rate of 4.2%. The principal balance of the agreement was \$0 as June 30, 2007.

Short-term liability activity for the year ended June 30, 2007, was as follows:

	Restated Beginning Balance	Additions	Reductions	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Kentucky Advance				
Revenue Program	\$ 0	\$ 2,729,850	\$ 2,729,850	\$ 0
Financing Obligations	527,502		527,502	
Governmental Activities				
Short-term Liabilities	<u>\$ 527,502</u>	<u>\$ 2,729,850</u>	<u>\$ 3,257,352</u>	<u>\$ 0</u>
<u>Business-type Activities:</u>				
Financing Obligations	225,000		225,000	
Business-type Activities				
Short-term Liabilities	<u>\$ 225,000</u>	<u>\$ 0</u>	<u>\$ 225,000</u>	<u>\$ 0</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 3. Short-term Debt (Continued)

The beginning balances of short-term debt were restated to separately show the balance of the governmental activities and the business-type activities.

The fiscal court has also recognized the assets bought with this debt as “assets held for resale” in the amount of \$825,296 on the Statement of Net Assets since the intent is to sell these at auction in one year.

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

	Reporting Entity			
	Restated Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 569,068	\$ 0	\$ 0	\$ 569,068
Construction in Progress	3,615,898	2,342,148	5,958,046	
Total Capital Assets Not Being Depreciated	4,184,966	2,342,148	5,958,046	569,068
Capital Assets, Being Depreciated:				
Land Improvements		451,960		451,960
Buildings	15,320,040	6,087,256		21,407,296
Vehicles and Equipment	6,099,592	1,147,321	98,714	7,148,199
Infrastructure	112,851,179	906,197		113,757,376
Total Capital Assets Being Depreciated	134,270,811	8,592,734	98,714	142,764,831
Less Accumulated Depreciation For:				
Land Improvements		18,078		18,078
Buildings	7,706,651	447,940		8,154,591
Vehicles and Equipment	3,798,110	373,156	78,971	4,092,295
Infrastructure	76,227,589	1,403,319		77,630,908
Total Accumulated Depreciation	87,732,350	2,242,493	78,971	89,895,872
Total Capital Assets, Being Depreciated, Net	46,538,461	6,350,241	19,743	52,868,959
Governmental Activities Capital Assets, Net	<u>\$ 50,723,427</u>	<u>\$ 8,692,389</u>	<u>\$ 5,977,789</u>	<u>\$ 53,438,027</u>
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$ 4,791,817	\$ 1,504,149	\$ 2,966	\$ 6,293,000
Total Capital Assets Being Depreciated	4,791,817	1,504,149	2,966	6,293,000
Less Accumulated Depreciation For:				
Vehicles and Equipment	3,246,351	391,378	2,373	3,635,356
Total Accumulated Depreciation	3,246,351	391,378	2,373	3,635,356
Total Capital Assets, Being Depreciated, Net	1,545,466	1,112,771	593	2,657,644
Business-Type Activities Capital Assets, Net	<u>\$ 1,545,466</u>	<u>\$ 1,112,771</u>	<u>\$ 593</u>	<u>\$ 2,657,644</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Capital Assets (Continued)

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Pike County Interlocal 911 Board Component Unit Activities:</u>				
Capital Assets Being Depreciated:				
Vehicles and Equipment	\$ 857,154	\$ 102,144	\$ 0	\$ 959,298
Less Accumulated Depreciation For:				
Vehicles and Equipment	298,693	78,211	0	376,904
Component Unit Activities Capital Assets, Net	<u>\$ 558,461</u>	<u>\$ 23,933</u>	<u>\$ 0</u>	<u>\$ 582,394</u>
<u>Pike County Golf Managment Corporation Component Unit Activities:</u>				
Capital Assets Being Depreciated:				
Vehicles and Equipment	\$ 437,061	\$ 27,328	\$ 0	\$ 464,389
Less Accumulated Depreciation For:				
Vehicles and Equipment	278,547	26,122	0	304,669
Component Unit Activities Capital Assets, Net	<u>\$ 158,514</u>	<u>\$ 1,206</u>	<u>\$ 0</u>	<u>\$ 159,720</u>

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 235,263
Protection to Persons and Property	287,647
General Health and Sanitation	556
Social Services	19,603
Recreation and Culture	58,643
Roads	1,640,781
Total Depreciation Expense - Governmental Activities	<u>\$ 2,242,493</u>
<u>Business-Type Activities</u>	
Solid Waste Vehicles and Equipment	<u>\$ 391,378</u>
<u>Component Unit Activities:</u>	
Pike Co. Interlocal 911 Board	\$ 78,211
Pike Co. Golf Management Board	26,122
	<u>\$ 104,333</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 4. Capital Assets (Continued)

Receivable Due From Sale of Assets

In fiscal year ended June 30, 2005, the fiscal court sold equipment to M&K Construction for \$50,000. The fiscal court had a contract with this company for payments to commence in the prior fiscal year; therefore the sale was recorded as a receivable in the financial statements. The balance owed to the fiscal court was \$40,000 as of June 30, 2006. This amount was not collected, so the fiscal court reclaimed the equipment.

Note 5. Financing Obligations

Governmental Activities:

- A. On June 17, 1991 Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for courthouse renovations. The principal amount of the lease was \$5,000,000. The agreement requires variable monthly payments for 25 years to be paid in full July 1, 2016. The principal balance of the agreement was \$2,697,920 as of June 30, 2007. The variable interest rate results in a payment schedule that may not compare to the prior year schedule. Lease payments for the remaining years are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2008	\$ 130,613	\$ 246,330
2009	117,962	258,243
2010	104,804	270,732
2011	90,940	283,825
2012	76,606	297,552
2013-2017	147,059	1,341,238
Totals	<u>\$ 667,984</u>	<u>\$ 2,697,920</u>

- B. On June 29, 1993 Pike County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program for an additional courthouse renovation and furniture. The principal amount of the lease was \$600,000. The agreement requires variable monthly payments for 25 years to be paid in full March 1, 2018, with a variable interest rate. The variable interest rate results in a payment schedule that may not to compare the prior year schedule. The principal balance of the agreement was \$345,713 as of June 30, 2007. Lease payments for the remaining years are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2008	\$ 16,877	\$ 24,836
2009	15,595	26,173
2010	14,259	27,581
2011	12,840	29,065
2012	11,374	30,629
2013-2017	31,609	179,710
2018	648	27,719
Totals	<u>\$ 103,202</u>	<u>\$ 345,713</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 5. Financing Obligations (Continued)

Governmental Activities (Continued)

- C. On January 17, 2003, Pike County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program for 911 vehicles. The principal amount of the lease was \$75,000. The agreement requires variable monthly payments for 5 years to be paid in full January 20, 2008. The principal balance of the agreement was \$15,000 as of June 30, 2007. Lease payments for the remaining years are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2008	\$ 308	\$ 15,000
Totals	<u>\$ 308</u>	<u>\$ 15,000</u>

- D. On January 5, 2007, Pike County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program for a Senior Citizens vehicle. The principal amount of the lease was \$20,699. The agreement requires variable monthly payments for 5 years to be paid in full January 20, 2012. The principal balance of the agreement was \$20,699 as of June 30, 2007. Lease payments for the remaining years are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2008	\$ 1,097	\$ 4,000
2009	968	4,000
2010	765	4,000
2011	562	4,000
2012	260	4,699
Totals	<u>\$ 3,652</u>	<u>20,699</u>

- E. On March 22, 2007, Pike County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program for a PVA vehicle. The principal amount of the lease was \$56,744. The agreement requires variable monthly payments for 4 years to be paid in full January 20, 2011. The principal balance of the agreement was \$56,744 as of June 30, 2007. Lease payments for the remaining years are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2008	\$ 2,690	\$ 15,000
2009	2,016	15,000
2010	1,259	15,000
2011	474	11,744
Totals	<u>\$ 6,439</u>	<u>\$ 56,744</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 5. Financing Obligations (Continued)

Governmental Activities (Continued)

- F. On June 26, 2007, Pike County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program for 2 Mack trucks. The principal amount of the lease was \$296,448. The agreement requires monthly payments due on the 20th of each month with an interest rate of 3.95% to be paid in full July 20, 2008. The principal balance of the agreement was \$296,448 as of June 30, 2007. Lease payments for the remaining years are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2008	\$ 14,731	\$
2009	<u>1,232</u>	<u>296,448</u>
Totals	<u>\$ 15,963</u>	<u>\$ 296,448</u>

- G. On June 26, 2007, Pike County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program for 2 Mack trucks. The principal amount of the lease was \$296,448. The agreement requires monthly payments due on the 20th of each month with an interest rate of 3.95% to be paid in full July 20, 2008. The principal balance of the agreement was \$296,448 as of June 30, 2007. Lease payments for the remaining years are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2008	\$ 14,731	\$
2009	<u>1,232</u>	<u>296,448</u>
Totals	<u>\$ 15,963</u>	<u>\$ 296,448</u>

Business-Type Activities

- H. On January 11, 2002, Pike County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program for landfill equipment. The principal amount of the lease was \$3,775,724. The agreement requires variable monthly payments for six years to be paid in full January 20, 2008. The principal balance of the agreement was \$696,217 as of June 30, 2007. Lease payments for the remaining years are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2008	\$ 17,713	\$ 696,217
Totals	<u>\$ 17,713</u>	<u>\$ 696,217</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 5. Financing Obligations (Continued)

Business-Type Activities (Continued)

- I. On January 17, 2003, Pike County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program for landfill equipment. The principal amount of the lease was \$625,000. The agreement requires variable monthly payments for 4 years to be paid in full January 20, 2007. The principal balance of the agreement was \$0 as of June 30, 2007.
- J. On June 26, 2007, Pike County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program for 2 Mack trucks. The principal amount of the lease was \$116,200. The agreement requires variable monthly payments for 13 months to be paid in full July 20, 2008. The principal balance of the agreement was \$116,200 as of June 30, 2007. Lease payments for the remaining years are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2008	\$ 5,774	\$
2009	483	116,200
Totals	<u>\$ 6,257</u>	<u>\$ 116,200</u>

- K. On June 26, 2007, Pike County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program for 2 Mack trucks. The principal amount of the lease was \$116,200. The agreement requires variable monthly payments for 13 months to be paid in full July 20, 2008. The principal balance of the agreement was \$116,200 as of June 30, 2007. Lease payments for the remaining years are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2008	\$ 5,774	\$
2009	483	116,200
Totals	<u>\$ 6,257</u>	<u>\$ 116,200</u>

Pike County Golf Course Management Corporation - Business-Type Activities

- L. A lease purchase agreement for the acquisition of greens mower was entered into in June 2006. The agreement is with John Deere Credit payable in 36 monthly payments beginning June 2006. The monthly payments are \$456. The lease is collateralized by the greens mower and is expected to mature in June 2009. The balance at December 31, 2006 was \$12,777.
- M. A lease purchase agreement for the acquisition of a Toro Gang Reel Mower was entered into in March 2004. The agreement is with GE Capital payable in 60 monthly payments beginning April 2004. The monthly payments are \$441 inclusive of interest of 5.71%. The lease is collateralized by the mower and is expected to mature in April 2009. The balance at December 31, 2006 was \$11,466.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 5. Financing Obligations (Continued)

Pike County Golf Course Management Corporation - Business-Type Activities (Continued)

- N. A lease purchase agreement for the acquisition of 30 golf carts was entered into in March 2004. The agreement is with Yamaha Motor Corporation payable in 48 monthly payments beginning May 2004. The monthly payments are \$2,940 inclusive of interest of 6.36%. The lease is collateralized by the golf carts and is expected to mature in October 2007. The balance at December 31, 2006 was \$16,804

Maturities of the leases in the remaining years are as follows:

2007	\$	26,579
2008		10,510
2009		<u>3,958</u>
Totals	\$	<u>41,047</u>

Note 6. General Obligation Bonds

- A. In September 2004, the Pike County Fiscal Court, issued \$4,320,000 in general obligation-refunding bonds to refinance the 1997 bond issue for the Hall of Justice. The bonds require semiannual interest payments due March 1 and September 1 and one principal payment each year due September 1. The bonds will mature September 1, 2018. As of June 30, 2007, the principal amount outstanding was \$3,825,000. Bond payments for the remaining years are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2008	\$ 127,440	\$ 260,000
2009	120,734	275,000
2010	112,603	290,000
2011	103,678	305,000
2012	93,821	325,000
2013-2017	281,125	1,730,000
2018-2019	<u>28,799</u>	<u>640,000</u>
Totals	<u>\$ 868,200</u>	<u>\$ 3,825,000</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 6. General Obligation Bonds (Continued)

- B. On March 24, 2006, the Pike County Fiscal Court, issued \$6,400,000 in general obligation improvement bonds for improvements to the Hall of Justice. The bonds require semiannual interest payments due March 1 and September 1 and one principal payment each year due March 1. The bonds will mature March 1, 2016. As of June 30, 2007, the principal amount outstanding was \$6,295,000. Bond payments for the remaining years are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2008	\$ 284,435	\$ 110,000
2009	279,485	115,000
2010	274,310	125,000
2011	268,685	130,000
2012	262,835	135,000
2013-2017	1,218,325	760,000
2018-2022	1,033,375	920,000
2023-2027	807,700	1,140,000
2028-2032	524,890	1,440,000
2033-2036	165,393	1,420,000
Totals	<u>\$ 5,119,433</u>	<u>\$ 6,295,000</u>

Long-term liability activity for the year ended June 30, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 10,480,000	\$	\$ 360,000	\$ 10,120,000	\$ 370,000
Financing Obligations (Note 5)	<u>3,332,168</u>	<u>670,339</u>	<u>273,535</u>	<u>3,728,972</u>	<u>305,166</u>
Governmental Activities					
Long-term Liabilities	<u>\$ 13,812,168</u>	<u>\$ 670,339</u>	<u>\$ 633,535</u>	<u>\$ 13,848,972</u>	<u>\$ 675,166</u>
<u>Business-Type Activities:</u>					
Financing Obligations (Note 5)	<u>\$ 1,524,179</u>	<u>\$ 232,400</u>	<u>\$ 827,962</u>	<u>\$ 928,617</u>	<u>\$ 696,217</u>
Business-Type Activities					
Long-term Liabilities	<u>\$ 1,524,179</u>	<u>\$ 232,400</u>	<u>\$ 827,962</u>	<u>\$ 928,617</u>	<u>\$ 696,217</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 7. Interest On General Obligation Bonds and Financing Obligations

The Statement of Activities – governmental activities includes interest on general obligation bonds and financing obligations of \$609,363 in debt service.

Note 8. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems at 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 9. Insurance

For the fiscal year ended June 30, 2007, Pike County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Estimated Infrastructure Historical Cost

Historical cost of infrastructure placed in service prior to the fiscal year ended June 30, 2003 (year of GASB 34 implementation) is an estimate. For those assets, the primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. This estimate was used to calculate the infrastructure historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction. Estimated infrastructure historical cost includes infrastructure placed in service from fiscal year 1984 through June 30, 2002. All infrastructure assets placed in service during the fiscal year ended June 30, 2003 and thereafter are recorded at actual historical cost.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 11. Landfill Closure and Post-Closure Costs

401 KAR 48:310 Section 2 and 3 requires the owner or operator of a landfill to have a detailed written estimate, in current dollars, the cost of hiring a third party to close the solid waste disposal site and to conduct each phase of closure care monitoring and maintenance in accordance with the closure plan. The Ford's Branch Landfill closure plan currently calls for six phases. As of June 30, 2007, 55% of phase four of the landfill capacity had been used.

Pike County must comply with established state and federal closure procedures and must perform maintenance and monitoring procedures at the site for 30 years after closure. Estimated closure costs total \$7,319,500, and estimated post closure care costs total \$13,433 per year for 30 years. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. Since the financial statements are prepared on a modified cash basis of accounting, no liability has been recognized for closure or post closure costs.

The fiscal court is required by state and federal laws and regulations to make annual contributions to finance closure and post-closure care. The fiscal court annually deposits \$130,000 of solid waste receipts into an account reserved for the landfill closing. At June 30, 2007, the Ford's Branch Landfill Closing Fund had a cash balance of \$2,226,853.

The Ford's Branch Landfill is scheduled to close in the year 2010. It is anticipated that sufficient funds will be available in the Ford's Branch Landfill Closing Account to pay estimated closure and post-closure costs.

Note 12. Property Taxes

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) September 15, due at discount November 1, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale February 1 following the delinquency date.

Note 13. Related Party Transactions

The County entered into the following related party transactions, which were approved by the fiscal court.

The County expended \$2,705 with Venters Gulf Service for towing services. County Magistrate Kenneth Robinson's son owns Venters Gulf Service.

The County expended \$62,393 with Deskins Motor Company for vehicles, parts and labor. Deskins Motor Company is owned by former County Judge/Executive William Deskins' brother.

The County expended \$87,606 with East Kentucky Chemicals for cleaning supplies. The Treasurer's spouse is employed by East Kentucky Chemicals.

The County expended \$23,734 with Pauley Building Center for repairs and maintenance supplies. County Judge/Executive Wayne Rutherford's son manages the Pauley Building Center.

The County expended \$42,277 with Riverside Supply, LLC for supplies. County Judge/Executive Wayne Rutherford's executive secretary, Colleen Chaney's husband is employed there.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 14. Prior Period Adjustments

The Beginning Net Assets of governmental activities was restated by \$157,740 for Construction in Progress and a bond refunding account not recorded properly in the prior year.

The Beginning Net Assets of the business-type activities was restated by \$8,918 for a capital asset not recorded in the prior year.

Note 15. Subsequent Events

On November 6, 2007, Pike County Fiscal Court returned \$876,307 of project proceeds of the Local Development Economic Development Fund to the state to fulfill the requirements of the grant agreements. The County will work with GOLD to reuse these funds in a manner that complies with current statutes.

An investigation into the suspected mishandling of cash receipts in the Solid Waste Department was initiated by the Fiscal Court. The suspected mishandling of funds arose when amounts deposited on behalf of a customer did not match the receipt issued. The investigation is in the preliminary stages and an amount of damages cannot be determined at this time. However, preliminary amounts do not seem to be material to the financial statements.

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PIKE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007

PIKE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Cash Basis

For The Year Ended June 30, 2007

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 4,243,375	\$ 4,475,571	\$ 4,571,306	\$ 95,735
In Lieu Tax Payments	29,000	41,383	42,181	798
Excess Fees	575,000	740,879	740,879	
Licenses and Permits	244,200	244,679	246,723	2,044
Intergovernmental Revenue	3,846,912	4,206,346	1,853,317	(2,353,029)
Charges for Services	32,500	32,500	30,635	(1,865)
Miscellaneous	54,510	82,226	97,687	15,461
Interest	55,000	161,539	179,438	17,899
Total Revenues	9,080,497	9,985,123	7,762,166	(2,222,957)
EXPENDITURES				
General Government	3,267,226	3,784,964	3,354,218	430,746
Protection to Persons and Property	546,987	896,164	749,793	146,371
General Health and Sanitation	3,040,000	3,040,000	929,724	2,110,276
Social Services	135,564	174,933	163,989	10,944
Recreation and Culture	317,708	307,436	289,509	17,927
Roads	91,413	138,018	128,571	9,447
Administration	1,681,599	1,931,765	1,554,689	377,076
Total Expenditures	9,080,497	10,273,280	7,170,493	3,102,787
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)		(288,157)	591,673	879,830
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds		(345,870)	(345,870)	
Total Other Financing Sources (Uses)		(345,870)	(345,870)	
Net Changes in Fund Balances		(634,027)	245,803	879,830
Fund Balances - Beginning		634,027	634,027	
Fund Balances - Ending	\$ 0	\$ 0	\$ 879,830	\$ 879,830
<u>Reconciliation - Fund Balances - Ending</u>				
Budgetary Basis	\$ 879,830			
Receivable Due From 911 Board	58,076			
Receivable Due From Airport Board	43,357			
Modified Cash Basis	\$ 981,263			

See accompanying notes to required supplementary information.

PIKE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Cash Basis
For The Year Ended June 30, 2007
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
In Lieu Tax Payments	\$ 40	\$ 91	\$ 91	\$ 0
Intergovernmental Revenue	4,248,047	4,389,304	3,291,024	(1,098,280)
Miscellaneous	562,000	591,507	541,911	(49,596)
Interest		7,871	7,871	
Total Revenues	4,810,087	4,988,773	3,840,897	(1,147,876)
EXPENDITURES				
Roads	6,114,973	8,021,250	5,169,216	2,852,034
Administration	1,436,720	1,392,442	1,361,227	31,215
Total Expenditures	7,551,693	9,413,692	6,530,443	2,883,249
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(2,741,606)	(4,424,919)	(2,689,546)	1,735,373
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	3,413,485	4,789,799	4,591,889	(197,910)
Transfers To Other Funds	(671,879)	(671,879)	(671,879)	
Total Other Financing Sources (Uses)	2,741,606	4,117,920	3,920,010	(197,910)
Net Changes in Fund Balances		(306,999)	1,230,464	1,537,463
Fund Balances - Beginning		306,999	306,999	
Fund Balances - Ending	\$ 0	\$ 0	\$ 1,537,463	\$ 1,537,463

See accompanying notes to required supplementary information.

PIKE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Cash Basis
For The Year Ended June 30, 2007
(Continued)

	JAIL FUND			
	<u>Budgeted Amounts</u>		<u>Actual Amounts, (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental Revenue	\$ 828,153	\$ 981,329	\$ 991,765	\$ 10,436
Charges for Services	215,500	283,152	289,694	6,542
Miscellaneous	10,000	14,026	16,029	2,003
Total Revenues	<u>1,053,653</u>	<u>1,278,507</u>	<u>1,297,488</u>	<u>18,981</u>
EXPENDITURES				
Protection to Persons and Property	2,156,602	2,491,467	2,338,681	152,786
Administration	886,080	837,487	811,305	26,182
Total Expenditures	<u>3,042,682</u>	<u>3,328,954</u>	<u>3,149,986</u>	<u>178,968</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,989,029)</u>	<u>(2,050,447)</u>	<u>(1,852,498)</u>	<u>197,949</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	<u>1,989,029</u>	<u>2,024,029</u>	<u>1,940,000</u>	<u>(84,029)</u>
Total Other Financing Sources (Uses)	<u>1,989,029</u>	<u>2,024,029</u>	<u>1,940,000</u>	<u>(84,029)</u>
Net Changes in Fund Balances		(26,418)	87,502	113,920
Fund Balances - Beginning		<u>26,418</u>	<u>26,418</u>	
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 113,920</u>	<u>\$ 113,920</u>

See accompanying notes to required supplementary information.

PIKE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Cash Basis
For The Year Ended June 30, 2007
(Continued)

	LGEA FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 11,243,067	\$ 13,262,210	\$ 13,104,280	\$ (157,930)
Miscellaneous		111,735	102,735	(9,000)
Total Revenues	11,243,067	13,373,945	13,207,015	(166,930)
EXPENDITURES				
General Government	442,708	479,279	457,190	22,089
Protection to Persons and Property	922,722	1,319,251	1,036,621	282,630
General Health and Sanitation	470,907	573,743	393,138	180,605
Social Services	976,318	949,406	817,280	132,126
Recreation and Culture	1,745,558	2,542,092	1,860,539	681,553
Airports	91,828	91,828	89,498	2,330
Other Transportation Facilities and Services	15,000	15,000	9,033	5,967
Debt Service	567,385	615,365	541,460	73,905
Capital Projects	383,840	383,840	383,840	
Administration	395,039	401,086	337,230	63,856
Total Expenditures	6,011,305	7,370,890	5,925,829	1,445,061
Excess (Deficiency) of Revenues				
Over Expenditures Before Other	5,231,762	6,003,055	7,281,186	1,278,131
Financing Sources (Uses)				
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds	(6,790,896)	(8,979,699)	(8,696,104)	283,595
Total Other Financing Sources (Uses)	(6,790,896)	(8,979,699)	(8,696,104)	283,595
Net Changes in Fund Balances	(1,559,134)	(2,976,644)	(1,414,918)	1,561,726
Fund Balances - Beginning	1,559,134	2,976,644	2,976,644	
Fund Balances - Ending	\$ 0	\$ 0	\$ 1,561,726	\$ 1,561,726

See accompanying notes to required supplementary information.

PIKE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Cash Basis
For The Year Ended June 30, 2007
(Continued)

	LGED FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Miscellaneous	\$ 151,890	\$ 488,011	\$ 488,011	\$
Interest	16,000	37,290	40,500	3,210
Total Revenues	167,890	525,301	528,511	3,210
EXPENDITURES				
General Government	868,906	1,229,339	300,000	929,339
Total Expenditures	868,906	1,229,339	300,000	929,339
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(701,016)	(704,038)	228,511	932,549
Net Changes in Fund Balances	(701,016)	(704,038)	228,511	932,549
Fund Balances - Beginning	701,016	704,038	704,038	
Fund Balances - Ending	\$ 0	\$ 0	\$ 932,549	\$ 932,549

See accompanying notes to required supplementary information.

PIKE COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2007

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation of Required Supplementary Information to Statement of Revenues, Expenditures, and Changes in Fund Balances

Following is a summary of adjustments that convert the cash basis budgetary schedules to the modified cash basis of accounting used in the Statement of Revenues, Expenditures, and Changes in Fund Balances:

	Revenues	Expenditures	Other Financing Sources (Uses)
<i>General Fund</i>			
Budgetary Comparison Schedule	\$ 7,762,166	\$ 7,170,493	\$ (345,870)
911 Board reimbursements received	(423,392)		
911 Board expenses paid		(442,779)	
Net Airport Board reimbursements received	(6,743)		
Expenditures Reclassed as Transfers to 911		(69,885)	(69,885)
Purchases of trucks with short-term debt		56,744	56,744
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds - Modified Cash Basis	<u>\$ 7,332,031</u>	<u>\$ 6,714,573</u>	<u>\$ (359,011)</u>
<i>Road Fund</i>			
Budgetary Comparison Schedule	\$ 3,840,897	\$ 6,530,443	\$ 3,920,010
Proceeds of Sale of Assets	(489,540)		489,540
Interest Paid for Solid Waste in Error		(5,802)	(5,802)
Purchases of trucks with short-term debt		592,896	592,896
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds - Modified Cash Basis	<u>\$ 3,351,357</u>	<u>\$ 7,117,537</u>	<u>\$ 4,996,644</u>
<i>LGEA Fund</i>			
Budgetary Comparison Schedule		\$ 5,925,829	\$ (8,696,104)
Transfers reclassified from debt service expenditures		(122,503)	(122,503)
Purchases of trucks with short-term debt		20,699	20,699
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds - Modified Cash Basis		<u>\$ 5,824,025</u>	<u>\$ (8,797,908)</u>

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PIKE COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2007

PIKE COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2007

	Forestry Fund	Federal Grant Fund	Maintenance Garage Fund	Capital Lease Acquisition Fund	Total Non-Major Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 115	\$	\$ 8,581	\$ 3,864	\$ 12,560
Total assets	<u>\$ 115</u>	<u>\$ 0</u>	<u>\$ 8,581</u>	<u>\$ 3,864</u>	<u>\$ 12,560</u>
FUND BALANCES					
Reserved For:					
Encumbrances	\$	\$	\$ 3,466	\$	\$ 3,466
Unreserved					
Special Revenue Funds	<u>115</u>	<u></u>	<u>5,115</u>	<u>3,864</u>	<u>9,094</u>
Total Fund Balances	<u>\$ 115</u>	<u>\$ 0</u>	<u>\$ 8,581</u>	<u>\$ 3,864</u>	<u>\$ 12,560</u>

The accompanying notes are an integral part of the financial statements.

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PIKE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2007

PIKE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2007

	Forestry Fund	Federal Grant Fund	Maintenance Garage Fund
REVENUES			
Taxes	\$ 8,085	\$	\$
Intergovernmental		5,900	
Miscellaneous			34,864
Interest			
Total Revenues	<u>8,085</u>	<u>5,900</u>	<u>34,864</u>
EXPENDITURES			
Protection to Persons and Property	8,208		
Other Transportation Facilities and Services			1,107,471
Capital Projects		5,900	21,665
Administration			319,921
Total Expenditures	<u>8,208</u>	<u>5,900</u>	<u>1,449,057</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(123)</u>		<u>(1,414,193)</u>
Other Financing Sources (Uses)			
Transfers From Other Funds	152		1,417,374
Total Other Financing Sources (Uses)	<u>152</u>		<u>1,417,374</u>
Net Change in Fund Balances	29		3,181
Fund Balances - Beginning	86		5,400
Fund Balances - Ending	<u>\$ 115</u>	<u>\$ 0</u>	<u>\$ 8,581</u>

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2007 (Continued)

Capital Lease Acquisition Fund	Total Non-Major Governmental Funds
\$	\$ 8,085
	5,900
	34,864
182	182
182	49,031
	8,208
	1,107,471
	27,565
	319,921
	1,463,165
182	(1,414,134)
	1,417,526
	1,417,526
182	3,392
3,682	9,168
\$ 3,864	\$ 12,560

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
BALANCE SHEET - GOVERNMENTAL FUND - COMPONENT UNIT - MODIFIED CASH BASIS
June 30, 2007

**PIKE COUNTY INTERLOCAL 911 BOARD
 COMPONENT UNIT OF PIKE COUNTY
 BALANCE SHEET - GOVERNMENTAL FUND - MODIFIED CASH BASIS**

June 30, 2007

	General Fund
Assets	
Cash and Cash Equivalents	\$ 78,313
Total Assets	<u>78,313</u>
Fund Balance	
Unreserved	78,313
Total Fund Balance	<u>\$ 78,313</u>

Reconciliation of the Balance Sheet-Governmental funds to the Statement of Net Assets

Total Fund Balance	\$ 78,313
Amounts Reported For Governmental Activities In the Statement Of Net Assets Are Different Because	
Capital Assets , Net of Accumulated Depreciation, used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds	<u>582,394</u>
Net Assets of Pike County Interlocal 911 Board	<u>\$ 660,707</u>

The accompanying notes are an integral part of the financial statements

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PIKE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUND - COMPONENT UNIT - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

**PIKE COUNTY INTERLOCAL 911 BOARD
 COMPONENT UNIT OF PIKE COUNTY
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUND - MODIFIED CASH BASIS**

For The Year Ended June 30, 2007

	General Fund
Revenues	
Charges For Services	\$ 419,903
Interest	785
Total Revenues	<u>420,688</u>
Expenditures	
Protection To Persons and Property	468,143
Administration	40,707
Total Expenditures	<u>508,850</u>
Excess (Deficiency) Of Revenues Over Expenditures Before Transfers and Financing Sources (Uses)	<u>(88,162)</u>
Transfers in	<u>69,884</u>
Net Change in Fund Balances	(18,278)
Fund Balances-Beginning	655,052
Fund Balances-Ending	<u><u>\$ 636,774</u></u>

**Reconciliation of the Statement of Revenues, Expenditures and Changes
 In Fund Balance of Governmental Funds to the Statement of Activities**

Net Change in Fund Balances-Total Governmental Fund	\$ (18,278)
Government funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets are allocated over their useful lives and reported as depreciation expense.	
Capital Outlay	102,144
Depreciation Expense	<u>(78,211)</u>
Change in Net Assets of Pike County Interlocal 911 Board	<u><u>\$ 5,655</u></u>

The accompanying notes are an integral part of the financial statements

PIKE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2007

Federal Grantor		
Program Title	Pass-Through	
<u>Grant Name (CFDA #)</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Commerce		
Congressionally Identified Awards and Projects		
PRIDE Community Grant - Lwr Johns Crk/Pompey Hill		
(CFDA #11.469)	CF05-34	\$ 3,375
PRIDE Community Grant - Maynard Hill		
(CFDA #11.469)	CF 06-33	14,998
PRIDE Grant - Spring Cleanup 2007		
(CFDA #11.469)	US 23 Corridor	2,000
Total U. S. Department of Commerce		20,373
U.S. Department of Housing and Urban Development		
Passed-Through Governor's Office for Local Development		
Community Development Block Grant/Small Cities Program		
Lower Johns Creek Water Project		
(CFDA #14.219)	03-023	5,900
Total U. S. Department of Housing and Urban Development		5,900
U.S. Department of the Interior		
Office of Surface Mining Reclamation & Enforcement		
Passed-Through Kentucky Infrastructure Authority:		
Abandoned Mine Land Reclamation Program		
Ferrell's Creek Water Project		
(CFDA #15.252)	M-02316635	929,724
Total U. S. Department of the Interior		929,724
U.S. Department of Homeland Security		
Assistance to Firefighters Grant		
(CFDA #97.044)	EMW-2006-FG-15593	76,024
Passed-Through Commonwealth Department		
of Military Affairs:		
Disaster Grant- Public Assistance		
(CFDA #97.036)	FEMA-1414-DR-KY	29,069
Disaster Grants- Public Assistance		
(CFDA #97.036)	FEMA-1454-DR-KY	63,888
Disaster Grant- Public Assistance		
(CFDA #97.036)	FEMA-1475-DR-KY	75,981
Disaster Grants- Public Assistance		
(CFDA #97.036)	FEMA-1523-DR-KY	29,318
Disaster Grants- Public Assistance		
(CFDA #97.036)	FEMA-1703-DR-KY	249,544
Total Disaster Grants-Public Assistance		447,800

See accompanying notes to the schedule of expenditures of federal awards.

PIKE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2007
(Continued)

Federal Grantor		
Program Title	Pass-Through	
<u>Grant Name (CFDA #)</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
U.S. Department of Homeland Security		
Passed-Through Commonwealth Office of Homeland Security:		
Homeland Security Grant Program		
Five County Communications Interoperability Project (CFDA #97.067)	M-094-0600003669-1	\$ 51,876
Mobile Data Computers and Related Equipment (CFDA #97.067)	M-094-0600003550-1	<u>73,299</u>
Total Homeland Security Grant Program		125,175
Total U. S. Department of Homeland Security		<u>648,999</u>
TOTAL FEDERAL AWARDS		<u><u>\$ 1,604,996</u></u>

See accompanying notes to the schedule of expenditures of federal awards.

PIKE COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2007

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Pike County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 - The federal expenditures for Abandoned Mine Land Reclamation Program Elkhorn City Interconnector Project and Shelby Valley Water Project includes grants to the sub-recipient as follows:

<u>Sub-recipient</u>	<u>CFDA#</u>	<u>Grant Amount</u>
Mountain Water District	15.252	\$ 929,724

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



PEERCY AND GRAY, PSC

Certified Public Accountants

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The Honorable William M. Deskins, Former Pike County Judge/Executive
The Honorable Wayne T. Rutherford, Pike County Judge/Executive
Members of the Pike County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Pike County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated December 13, 2007, wherein we issued a qualified opinion on the aggregate discretely presented component units and referred to the report of other auditors. Pike County presents its financial statements on the modified cash basis, which is a comprehensive basis other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pike County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pike County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Pike County's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Pike County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The script is cursive and fluid.

Percy and Gray, PSC
Certified Public Accountants
Louisville, Kentucky

December 13, 2007

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



PEERCY AND GRAY, PSC

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The Honorable William M. Deskins, Former Pike County Judge/Executive
The Honorable Wayne T. Rutherford, Pike County Judge/Executive
Members of the Pike County Fiscal Court

Report on Compliance With Requirements
Applicable To Each Major Program And On Internal
Control Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Pike County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Pike County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Pike County's management. Our responsibility is to express an opinion on Pike County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pike County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Pike County's compliance with those requirements.

In our opinion, Pike County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2007-01.

Internal Control Over Compliance

The management of Pike County is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Pike County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Pike County's internal control over compliance.

Report on Compliance With Requirements
Applicable To Each Major Program And On Internal
Control Over Compliance In Accordance With OMB Circular A-133

Internal Control Over Compliance (Continued)

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that a noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Pike County's response to the finding identified in our audit is included in the accompanying schedule of findings and questioned costs. We did not audit the response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the entity, the Kentucky Governor's Office for Local Development, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The signature is written in a cursive, flowing style.

Percy and Gray, PSC
Certified Public Accountants
Louisville, Kentucky

December 13, 2007

**PIKE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2007

A. SUMMARY OF AUDIT RESULTS

1. The Auditors' report expresses an unqualified opinion on the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pike County. The auditors' report also expresses a qualified opinion on the aggregate discretely presented component units of Pike County.
2. No significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditors' Report.
3. No instances of noncompliance material to the financial statements of Pike County were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal awards programs are reported in the Independent Auditors' Report.
5. The auditors' report on compliance for the audit of the major federal awards programs for Pike County expresses an unqualified opinion.
6. There is one audit finding relative to the major federal awards programs for Pike County reported in Part C of this schedule.
7. The program tested as a major program was: Department of Interior – Abandoned Mine Lands Reclamation (AMLR) Program – CFDA #15.252.
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Pike County was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

NONE.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

2007-01

CFDA: 15.252

Program: Abandoned Mine Lands Reclamation (AMLR) Program – Ferrell's Creek Water Project

Compliance Requirement: Subrecipient Monitoring

Questioned Costs: \$929,724

In accordance with OMB Circular A-133 and the grant agreement with the Commonwealth of Kentucky Environmental and Public Protection Cabinet, Department for Natural Resources, Division of Abandoned Mine Lands (Division), the County has certain obligations to undertake in performance of the Ferrell's Creek Water Project (Project). The award is passed-through to a subrecipient, Mountain Water District, who administers the project. The County has no agreement with the subrecipient pertaining to project administration. OMB Circular A-133 requires the monitoring of subrecipients to assure obligations of the pass-through entity are met. The County's current monitoring procedures consist of receiving and approving request for payments and receiving a copy of the annual audit of the subrecipient. The following obligations of the County need to be monitored more closely:

- Monthly submission of project status and financial reports by the 15th of the month.
- Submission for Division review and approval of contracts with other governmental entities or private companies relating to the performance of Resident Inspection and Professional Oversight of the project.

PIKE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Fiscal Year Ended June 30, 2007

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT
(CONTINUED)**

2007-01 (Continued)

- Submission for Division review, Construction Bid Tabulations and Notices of Award.
- Submission for Division review, Resident Inspectors' Daily Reports and Progress Meeting Minutes.
- Submission of As-Built Plans.
- Submission of a final closeout report of the Project.
- Maintenance of all records upon closeout of the Project.

We recommend the County execute agreements with all subrecipients that require submission to the County evidence of the above obligations pertaining to federal award programs.

Response: Will check with Till Brown or Rose Farley

D. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

NONE.

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

PIKE COUNTY FISCAL COURT


For The Fiscal Year Ended June 30, 2007

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND
DEVELOPMENT PROGRAM

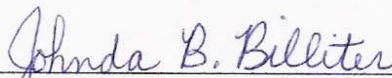
PIKE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2007

The Pike County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance and Development Programs was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer

